

Message Text

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PAGE 01 ISLAMA 05082 281207Z

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ACTION NEA-16

INFO OCT-01 ISO-00 EB-11 COME-00 L-03 DRC-01 RSC-01 /033 W

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R 280951Z MAY 74

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 4917

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

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E.O. 11652: N/A

TAGS: EIND, EFIN, PK

SUBJ: PROPOSED MESSAGE TO HERCULES, INC.

SUMMARY: EMBASSY HAS RECEIVED COMMERCIAL CABLE TO AMBASSADOR BYROADE FROM HERCULES, INC. REQUESTING HIS ASSISTANCE RE SOLVING COMPANY TAX PROBLEM. REQUEST DEPARTMENT RELAY TELEGRAM TO HERCULES OUTLINING STEPS TAKEN BY MISSION IN SUPPORT OF HERCULES. END SUMMARY.

1. FOLLOWING COMMERCIAL CABLE FROM R.E. WHITNEY, INT. DEPT., HERCULES, INC. TO AMBASSADOR BYROADE IS REPEATED FOR YOUR INFORMATION....

"WE REGRET THAT SINCE OUR MEETING IN PAKISTAN WE HAVE HEARD NOTHING FROM YOU CONCERNING THE RESOLUTION OF THE OUTSTANDING PROBLEMS. JOHN EAGAN ADVISED PRIOR TO HIS DEPARTURE FROM PAKISTAN THAT APPARENTLY THE PROBLEMS HAD NOT BEEN RESOLVED. IN ADDITION IT SEEMS WE HAVE ONLY SERVED TO STIR UP MORE CONTROVERSY. WE ARE NOW ADVISED THAT INCOME TAX OFFICIALS HAVE CHALLENGED THE TAX EXEMPT STATUS OF THE ROYALTY PAYMENTS UNDER THE KNOWHOW AGREEMENT AND, IN ADDITION, ARE ATTEMPTING TO IMPOSE TAXES ON THE PAYMENTS DUE UNDER THE TECHNICAL SERVICE AGREEMENT. THE BASIS FOR THIS ACTION IS UNFOUNDED. WE HAVE BEEN REPEATEDLY ASSURED THAT THE KNOWHOW PAYMENTS WERE TAX EXEMPT AND SHOULD BE THE BASIS FOR NO CONTROVERSY WHATSOEVER AND, IN FACT, WERE SO ASSURED BY GOVERNMENT OF PAKISTAN REPRESENTATIVES IN OUR MEETING IN ISLAMABAD ON

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MAY 7. WE WERE ADVISED IN THAT MEETING THAT THE LATTER HAD

BEEN THOROUGHLY STUDIED PRIOR TO APPROVAL OF THE FIRST TWO PAYMENTS IN NOVEMBER 1973. WE HAVE REPEATEDLY ASSURED GOVERNMENT OFFICIALS AND NOW ASSURE YOU THAT PAYMENTS UNDER THE TECHNICAL SERVICE AGREEMENT REPRESENT REIMBURSEMENT OF HERCULES COSTS ONLY. THIS ASSURANCE, INCIDENTALLY, IS SO SUPPORTED BY AN INDEPENDENT AUDITOR. THERE ARE ABSOLUTELY NO PROFITS TO HERCULES UNDER THIS AGREEMENT. THE GOVERNMENT'S CONTINUED AGITATION IN THESE AREAS IS IN DIRECT CONTRAST TO THE OFFICIALLY EXPRESSED ATTITUDE OF THE GOVERNMENT OF PAKISTAN TOWARD FOREIGN INVESTMENT AND ONLY SERVES TO CONFUSE AN ALREADY DIFFICULT SITUATION. CAN YOU CLARIFY? RESPECTFULLY, R.E. WHITNEY, INT. DEPT., HERCULES, INC., WIL-MINGTON, DELAWARE."

2. IF DEPARTMENT PERCEIVES NO OBJECTION, REQUEST THAT IT TRANSMIT FOLLOWING REPLY FROM EMBASSY TO ABOVE CABLE:

"AMBASSADOR BYROADE IS PRESENTLY IN THE US. AFTER AMBASSADOR TALKED WITH YOU IN ISLAMABAD ON MAY 8 HE HAD OPPORTUNITY TO SPEAK AGAIN WITH PRIME MINISTER ABOUT YOUR PROBLEMS ON MAY 17. EARLIER THAT SAME DAY HE ALSO SAW FINANCE MINISTER AND MATTER OF YOUR TECHNICAL SERVICES AGREEMENT CAME UP. THE MINISTER SAID THAT IN TERMS OF RESPONDING TO YOUR REQUEST FOR FURTHER REMITTANCES UNDER THE AGREEMENT SOME TAX QUESTIONS HAD NECESSARILY TO BE CLEARED UP TO MAKE SURE EVERYTHING WAS IN ORDER. IT APPEARED TO EMBASSY'S ECONOMIC COUNSELOR WHO WAS PRESENT THAT PAKISTAN GOVERNMENT'S INTEREST IN DOING THIS WAS ESSENTIALLY A FORMALITY TO MAKE SURE OF THE LEGALITY OF THE AGREEMENT. THIS HAD TO BE CLEARED UP BEFORE THE GOVERNMENT COULD SANCTION FURTHER REMITTANCES UNDER THE AGREEMENT. LATER ON MAY 22 ECON COUNSELOR ALSO HAD OPPORTUNITY TO BRIEF MR. NAIM, DIRECTOR OF AMERICAS DESK, MINISTRY OF FOREIGN AFFAIRS, ABOUT THIS ISSUE.

"AFTER EMBASSY RECEIVED YOUR TELEGRAM, ECONOMIC COUNSELOR PHONED ROBERT PUGMIRE IN LAHORE ON MAY 28. PUGMIRE SAID THAT HIS OFFICE HAD RECEIVED VARIOUS WRITTEN INQUIRIES ABOUT THE KNOWHOW AND TECHNICAL SERVICES AGREEMENTS FROM MINISTRY OF FINANCE, STATE BANK OF PAKISTAN, AND LOCAL TAX AUTHORITIES. HE REPLIED TO LAST OF THESE ON MAY 28. HE BELIEVES THAT AT THIS JUNCTURE THAT BEST TACTIC IS TO WAIT AND SEE IF HIS ANSWERS SATISFY GOVERNMENT'S REQUIREMENTS.

"ECONOMIC COUNSELOR ASKED PUGMIRE TO KEEP EMBASSY INFORMED

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OF DEVELOPMENTS AND STATED THAT EMBASSY IS QUITE WILLING TO APPROACH PAKISTAN GOVERNMENT AGAIN WHEN TIMING FOR DOING SO SEEMS PROPITIOUS. PLEASE BE ASSURED THAT EMBASSY WILL CONTINUE TO STRESS TO APPROPRIATE GOP OFFICIALS IMPORTANCE OF AMICABLY RESOLVING HERCULES' PROBLEMS IN PAKISTAN."

LUPPI

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Message Attributes

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Draft Date: 28 MAY 1974
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Disposition Date: 28 MAY 2004
Disposition Event:
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Disposition Reason:
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